

September 2009

## Summary of Don Heller's comments

### *Tuition Policies, Financial Aid, and College Participation*

College is definitely less affordable than it was three decades ago. One measure of affordability is the relationship of the growth in tuition and the growth in family incomes

- **Since 1980, tuition (in constant dollars) at four-year public universities has gone up more than 200 percent;** at private four-year colleges and universities about 162 percent; and at community colleges about 128 percent.
- During this same period household income for the richest 20 percent of households has grown 50 percent; median household income has grown only about 14 percent; and income for the poorest 20 percent of households has grown less than 10 percent.

“Incomes of top earning families have gone up by half while we have increased tuition two to three times. Median family income has barely gone up in last 25 years... so if you are the average family, you have seen little growth in income. Incomes of the poor have gone up only about 10 or 15 percent.”

Another measure of affordability is average tuition as a percentage of household income.

- Average four-year private tuition now averages 50 percent of household income, while public four-year tuition averages 13 percent, and community college tuition about 5 percent.

“For public four-year universities, tuition has gone from 5 percent of total income to 13 or 14 percent of income. This represents a significant decrease in affordability. It formerly cost an average 22 percent of household income to send a student to a private institution...now it costs half. The amount of family income needed to send a student to a community college has gone up as well.”

In Washington, tuition as a percentage of household income has not risen as fast as the national average. For example, UW tuition was about 11 percent of median household income in 2008, slightly less than double what it was in 1989, when it was 6 percent. Tuition as a percentage of median household income rose from 5 to 8 percent for Washington's comprehensives between 1989 and 2008, while community college tuition rose from 3 to nearly 5 percent.

“The good news is that Washington is still an affordable system. Your community colleges are priced much closer to national averages in part because the national rankings are heavily influenced by low tuition rates in California.”

With respect to need-based grant spending, nationally President Obama and Congress have increased the Pell Grant but it still has a long ways to go to get even with two decades ago. Washington has done a great job maintaining and supporting its State Need Grant, while other states have cut this form of support for those at the lowest income levels. Washington is spending an average of \$880 per student (aged 18-24) and nationally it's about half of that.

To summarize four or five decades of research on impact of tuition on financial aid and on attendance and persistence, I would note that rising prices *do* affect student decisions to attend and persist. The strongest affect is at lowest income levels. As students go up income ladder there is greater price flexibility. At the upper income levels, 98 percent go on to postsecondary education... at the lower income levels, less than half continue within two years of high school graduation. Over three decades we have not closed this gap.

Students from families with higher income levels are more price elastic. They can be influenced about where to go to college independent of financial aid. But financial aid can be very effective in encouraging lower income students to attend certain institutions and persist. Lower income students respond much better to grants than loans and work study.

### ***Recommendations***

- Take an integrative policy approach.
- Focus on tuition, financial aid, and appropriations policies in concert.
- Link state, federal, and institutional financial aid policies with tuition policies.

### ***Considerations***

- Focus not just on cost, but on price and post-college outcomes.
- Recognize that price influences access, choice, and persistence.
- Link aid to financial need at different price points.
- Recognize that almost all policies are subject to change, and are only as enforceable as the parties that agree to them.
- Consider the equity/efficiency trade-off.

### ***Five differentiated pricing policies***

1. **Institution/campus.** Historically based, generally related to cost differentials, can affect access, but also promote stratification. Can impact quality. The gap between comprehensives (in Pennsylvania) and our campus (Penn State) has become more stratifying. Huge amount of lower and moderate students affected. Can affect how much money institutions save and the quality of education they provide.
2. **Discipline/major.** Seen mostly at graduate level. We charge undergraduate business and nursing students more. We made these decisions based on cost. Nursing expensive; engineering more expensive. Most of these differentials are relatively small. Haven't implemented more aggressive cost differentials because we don't want to influence choice of major. Students should not major based on cost. They should choose their major according to their interest/ability.
3. **Lower versus upper division.** There is a cost factor here. Students in their first two years do tend to be channeled to large classes, which are lower-cost classes. A number of institutions do have price differentials. You also can make the argument that by time student is junior or senior he/she is more likely to complete and is less price sensitive. Some institutions vary their rates to encourage community college students to transfer.
4. **Online courses.** World Campus at Penn state offers online and hybrid courses at a lower tuition rate than campus-based courses. It is less costly to offer a class online. Many of the students already are residential students and are adding an online course. Important to note. If you add a large differential cost between online/campus, how does it influence campus attendance? What types of programs should be offered online and what types face-to-face?

There is the belief that online should be more productive... however, you can't just bundle 100 online students and expect the same quality you get with a classroom of 30. Staff online courses with adjuncts, which brings down quality. There is a misperception about how productive it can be. Convenience factor is a real advantage.

5. **Income-based, sliding scale.** Here's your income and this is what you pay. This method is based on income recorded on tax forms. It is often very efficient. It doesn't ask about assets/child support, etc. A small table can be used to determine tuition levels. This method is also very inequitable (can't take two people and treat them the same). It's worth discussing. If this model is adopted, states need to be sure to require people to fill out the FAFSA, so they get all the federal aid they are eligible for. California is as a bad example of not doing this.

## *Questions*

**Jesus Hernandez, Board chair.** What do you see happening as highly educated people across the country reach retirement age ...and the demand for high skill labor increases? Our ability to meet high-demand labor goals is questionable. The state has good goals. But frankly it is going to be difficult to reach these goals given recent funding trends. Younger students are not attaining postsecondary credentials equal to those of their parents. We've made college much less affordable.

**Answer:** You can't increase attainment rates unless you focus on students at the margin. That's where focus has to be. Ninety-eight percent of high income students go onto college within two years of high school graduation. Policies to support increased levels of attainment need to be focused on students at the margins.

**Nita Rinehart, Board member:** I think the important message is that money is not the only issue. Academic preparation, peers, upward bound programs are all very important. All studies point to the fact that students are not getting adequate preparation and support at secondary level.

**Answer.** GEAR UP was purposefully designed to start in middle school. In the 21<sup>st</sup> century scholars program – they receive academic support, tutorial support, etc. We are not doing a good job of aligning exit standards with entrance standards ....need these much better aligned. We also need to do a better job convincing lower-income students that some reasonable amount of debt is a good investment for someone who is prepared for and ready to get a bachelor's degree.

**Phyllis M. Wise, UW Provost.** Have you pursued a hybrid model (face-to-face and online)? If your data is right on higher income families, how do you provide financial aid to middle class?

**Answer.** At Penn State we have hybrid courses. They are fairly common. Some narrowly defined studies have indicated they have high learning outcomes. And we do have income-based programs – you won't pay anything at all if you are below a certain income. They are very new, but very simple and we need to get word out. We don't have enough financial aid for lower- middle income families to make it affordable... even moderate income families are less and less able to afford college. So we need to know more about what the affordability point truly is. How much will we have to subsidize students at different income points?

The reality is that institutions like yours or mine could push up sticker prices and not lose high- income students. We do this at the out-of-state-level. We already have a lot of information on how pricing is inelastic for students at high income levels.

These types of policies are not going to make you popular – unless you make it clear how protecting low- and moderate-income families. High-income students will go to college... and there is little you can do with public policy to change this. Where you can change things is in focusing on students at the margins. You only increase your social return by getting them into college.

Some mention of outcomes-based policies is also important. Institutions are being asked to play a more direct role in achieving high participation rates. You can craft policies to reward students. But you have to be very careful about unintended consequences. There may be a disincentive to enroll low-income students because they would be less likely to complete degree programs. These types of programs work against broad access/success.

# # #